

Message Text

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PAGE 01 ABU DH 00655 150827Z

17

ACTION EB-07

INFO OCT-01 EUR-12 NEA-10 ISO-00 ERDA-05 AID-05 CEA-01

CIAE-00 CIEP-01 COME-00 DODE-00 FPC-01 H-02 INR-07

INT-05 L-03 NSAE-00 NSC-05 OMB-01 PM-04 USIA-06

SAM-01 OES-03 SP-02 SS-15 STR-04 TRSE-00 FEA-01 /102 W

----- 010895

R 150600Z MAR 76

FM AMEMBASSY ABU DHABI

TO SECSTATE WASHDC 4067

INFO AMEMBASSY DOHA

AMEMBASSY JIDDA

AMEMBASSY KUWAIT

AMEMBASSY LONDON

AMEMBASSY TEHRAN

C O N F I D E N T I A L ABU DHABI 0655

E.O. 11652: GDS

TAGS : ENRG, TC

SUBJECT : ABU DHABI ONSHORE GAS PROJECT

REF: ABU DHABI 424

1. ADPC GROUP ONCE MORE SEEMS TO BE RESUMING CENTER STAGE POSITION IN NEGOTIATIONS WITH GOVERNMENT ON ONSHORE LPG PROJECT. ELEVEN-MAN NEGOTIATING TEAM HAS BEEN HERE FOR WEEK FOR FURTHER ATTEMPT TO REACH AGREEMENT. TEAM CAME EQUIPPED WITH VARIOUS FRILLS TO IMPROVE ITS POSITION BUT NO BASIC CHANGE IN COMPANIES UNWILHINGNESS TO PUT IN MORE THAN TEN PERCENT OF \$1.2 BILLION COST OF PROJECT--WHETHER CASH, OR FINANCING RAISED IN THEIR OWN NAME.

2. AFTER STERILE SESSION WITH ADNOC'S HAMRA KROUHA, IN WHICH HAMRA KROUHA CONTINUED TO REJECT COMPANIES OFFER AS INADEQUATE, INDUSTRY TEAM ATTEMPTED TO SEE OTAIBA AND SUWAIDI
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PAGE 02 ABU DH 00655 150827Z

IN HOPES OF FINDING AUDIENCE MORE RECEPTIVE TO THEIR PROBLEMS

WITH FINANCING. OTAIBA INFORMED THEM HE WAS NO LONGER INVOLVED IN PROJECT. MEETING WAS FINALLY ARRANGED WITH SUWAIDI, AND OUTCOME IN COMPANIES EYES WAS MUCH MORE POSITIVE. FOREIGN MINISTER TOLD THEM THAT ABU DHABI GOVERNMENT WISHED THEIR PARTICIPATION IN PROJECT. AT SAME TIME, SUWAIDI SAID TEN PERCENT PARTICIPATION NOT TRUE PARTNERSHIP AND HE WISHED DISCUSSIONS TO RETURN TO EARLIER PROPOSITION THAT JOINT VENTURE BE FORMED ON 60/40 BASIS, WITH FINANCING PROBLEM THIS POSED FOR COMPANIES TO BE RE-EXAMINED. WHEN TEAM REMINDED SUWAIDI THAT EARLIER DISCUSSIONS ON THIS BASIS HAD FOUNDERED ON HAMRA KROUHA'S UNWILLINGNESS TO CONTEMPLATE GOVERNMENT GUARANTEES TO ENABLE COMPANIES TO FINANCE THEIR 40 PERCENT SHARE, SUWAIDI SAID SITUATION HAD CHANGED SINCE THEN AND HE THOUGHT SOMETHING COULD BE WORKED OUT NOW. HE ASKED COMPANIES TO COME BACK FOR SERIOUS NEGOTIATIONS MARCH 21 AND COMPANIES AGREED TO DO SO.

3. COMMENT:. SUWAIDI'S ENGAGEMENT IS HOPEFUL SIGN THAT LONG STANDING IMPASSE ON THIS PROJECT MAY AT LAST BE BROKEN. HIS INTERVENTION LAST YEAR WAS IMPORTANT FACTOR IN ADG DECISION TO HOLD TO 60/40 FORMULA WITH OIL COMPANIES AND TO LOWER PRICES OF ABU DHABI CRUDES SO AS TO RESTORE PRODUCTION LEVELS. ON OTHER HAND HE WILL FACE DETERMINED OPPOSITION FROM HAMRA KROUHA, WHO BELIEVES ADG NEED NOT BE AFRAID TO GO AHEAD WITH PROJECT ON ITS OWN IF IT DOES NOT GET DEAL IT WANTS FROM COMPANIES. FROM SUWAIDI'S FORTHRIGHT STATEMENT THAT HE WANTED ADPC CONSORTIUM AS PARTNERS, WE MUST ASSUME DISCUSSIONS ADNOC HAS BEEN HOLDING WITH NUMBER OF SMALL U.S. GAS PHDEPENDENTS HAS NOT, THUS FAR, PRODUCED NOTABLY VRE ATTRACTIVE OFFER. WHILE FINANCING OF PROJECT IS MAIN OBSTACLE, THERE ARE OTHER ISSUES TO BE RESOLVED SUCH AS LEVEL OF PROFITABILITY FOR CONSORTIUM WHICH IN TURN WILL DETERMINE PRICE GOMERNMENT IS PAID FOR GAS FEEDSTOCK, AND WHETHER OR NOT THERE SHOULD BE FLOOR PRICE FOR GAS FEEDSTOCK. ADPC GKGUP CONSIDERS THESE ISSUES, HOWEVER, "RELATIVELY NEGOTIABLE."
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